



ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000

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EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

AGENDA

NOTICE OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS AND AUDIT COMMITTEE

14th Floor Conference Room
3300 North Central Avenue
Phoenix, AZ 85012

September 5, 2013
10:30 a.m. Arizona Time

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the Trustees of the Arizona State Retirement System (ASRS) Operations and Audit Committee (OAC) and to the general public that the ASRS OAC will hold a meeting open to the public on Thursday, September 5, 2013, beginning at 10:30 a.m. Arizona Time in the 14th Floor Conference Room of the ASRS office, 3300 North Central Avenue, Phoenix, AZ 85012. Trustees of the Committee may attend either in person or by telephone conference call.

This is a regularly scheduled meeting of the Operations and Audit Committee; however, due to possible attendance by other ASRS Board Trustees, this meeting may technically become a meeting of the Board or one of its committees. Actions taken will be consistent with Operations and Audit Committee governance procedures. Actions requiring Board authority will be presented to the full Board for final decision.

The Chair may take public comment during any agenda item. If any member of the public wishes to speak to a particular agenda item, they should complete a request to speak form indicating the item and provide it to the Committee Administrator.

This meeting will be teleconferenced to the ASRS Tucson office conference room at 7660 E. Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

The Agenda for the meeting is as follows:

1. Call to Order; Roll Call; Opening Remarks Mr. Jeff Tyne
Operations and Audit Committee Chair
2. Approval of the July 30, 2013 Minutes of the OAC Meeting Mr. Jeff Tyne
3. Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Health Insurance Program Contract Renewal Mr. Anthony Guarino
Deputy Director and Chief Operations Officer
..... Mr. Patrick M. Klein
Assistant Director, External Affairs Division
..... Mr. Edward Rapoport
Benefits Administrator

4. Presentation, Discussion and Appropriate Action Regarding an Internal Audit Division Update on Employer Audits..... Mr. Anthony Guarino
..... Bernard Glick
Chief Internal Auditor
5. Review of Recently Conducted Audits
 - ASRS Member Advisory Center (MAC) and E-mail (ASKMAC)
 - New Retirees – Pension Audit and Survivor Benefits
 - Pima County
 - Town of Payson..... Mr. Anthony Guarino
6. Requests for Future Agenda Items..... Mr. Jeff Tyne
..... Mr. Anthony Guarino
7. Call to the Public Mr. Jeff Tyne

Those wishing to address the ASRS Committee are required to complete a Request to Speak form before the meeting indicating their desire to speak. Request to Speak forms are available at the sign-in desk and should be given to the Committee Administrator. Trustees of the Committee are prohibited by A.R.S. § 38-431.01(G) from discussing or taking legal action on matters raised during an open call to the public unless the matters are properly noticed for discussion and legal action. As a result of public comment, the Committee Chair may direct staff to study and/or reschedule the matter for discussion and decision at a later date.

8. Adjournment of the OAC

A copy of the agenda background material provided to the OAC Trustees (with the exception of material relating to possible executive sessions) is available for public inspection at the ASRS offices located at 3300 North Central Avenue, 14th Floor, Phoenix, Arizona and 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona. The agenda is subject to revision up to 24 hours prior to meeting. These materials are also available on the ASRS website (<https://www.azasrs.gov/web/BoardCommittees.do>) approximately 48 hours prior to the meeting.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter or alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.

Dated August 29, 2013

ARIZONA STATE RETIREMENT SYSTEM

Zachary Kucera
Committee Administrator

Date

Anthony Guarino
Deputy Director and Chief Operations Officer

Date



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Paul Matson
Director

MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS AND AUDIT COMMITTEE

HELD ON
Tuesday, July 30, 2013
10:30 a.m., Arizona Time

The Operations and Audit Committee (OAC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Jeff Tyne, Chair, called the meeting to order at 10:36 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jeff Tyne, Chair
Mr. Mike Smarik, Vice-Chair
Mr. Brian McNeil

Absent: Dr. Richard Jacob

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the May 9, 2013 Minutes of the Operations and Audit Committee (OAC) Meeting

Motion: Mr. Mike Smarik moved the Committee accept the minutes of the May 9, 2013 OAC meeting. Mr. Brian McNeil seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding an ASRS Risk Assessment of Agency Budget and Workforce

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, addressed the Committee regarding the ASRS Risk Assessment. Mr. Guarino gave a brief description of the risks, ranked based on impact, the controls in place to minimize risk, and the strategies employed by the ASRS to reduce these risks.

4. Presentation, Discussion and Appropriate Action Regarding the ASRS Budget Related Topics Including:

- A. Update on Status of the ASRS Appropriated Budget Requests for Fiscal Year (FY) 2014 and FY 2015.**
- B. Presentation of the Estimated ASRS Administrative and Investment Spending Plan for FY 2014 and FY 2015.**
- C. Discussion of the Plan for the Reallocation Between Base Appropriations and Continuous Appropriations**

After opening remarks on the topic, Mr. Anthony Guarino introduced Ms. Martha Rozen, Chief of Administrative Services, who addressed the Committee regarding the Fiscal Year (FY) 2014 and FY 2015 appropriated budget submission and the estimated FY 2014 and FY 2015 administrative and investment budget. Mr. Guarino and Ms. Rozen led discussions of budget areas in the submission including workforce retention risks and management strategies, and the continuously appropriated funding projections for FY 2014 and FY 2015.

Mr. Guarino presented a plan for the reallocation between base appropriations and continuous appropriations. Mr. Guarino noted continuous appropriations would be used for a portion of staff salaries for the first time, specifically investment management and staff involved in the administration of pension processing. Trustees had some questions and Mr. Guarino led the discussion.

Motion: Mr. Mike Smarik moved to accept the spending plans as presented and forward them to the ASRS Board for review and approval. Mr. Brian McNeil seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the ASRS Long Term Disability Program Contract Renewal

Mr. Patrick M. Klein, Assistant Director, External Affairs Division, addressed the Committee regarding the contract renewal for Sedgwick for the plan year, July 1, 2013 through June 30, 2014. He stated this was the third year of the five-year contract between the ASRS and Sedgwick and that Sedgwick submitted a renewal offer of a 1.3% increase. Mr. Klein noted the ASRS has had a very good relationship with Sedgwick for many years. Mr. Klein said ASRS staff thought the adjustment was appropriate because the general increase in the inflation rate was the same amount.

6. Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Dental Insurance Contract Renewal

Mr. Klein addressed the Committee regarding the contract renewal for Assurant for calendar year 2014. He stated this was the fourth year of the five-year contract between the ASRS and Assurant and that Assurant submitted a renewal offer of a 0% increase. Mr. Klein noted the ASRS has had a very good relationship with Assurant.

7. Review of Recently Conducted Audits

- **Arizona Department of Transportation**
- **ASRS Records Management**

Mr. Bernard Glick, Chief Internal Auditor, presented the Committee with the audit of Arizona Department of Transportation (ADOT). There were two findings: 1) ADOT did not remit ASRS contributions for 30 employees who were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years, and 2) ADOT did not remit ASRS contributions on all eligible compensation for one employee. The amount due the ASRS is \$157,096.

Mr. Glick noted the ASRS Management Response was as follows: 1) We concur with ADOT/ADOA's acknowledgement of the two employees who were identified as ineligible for ASRS membership, and 2) Though the audit uncovered 185 other potential ineligible employees, there were sufficient historical reasons to not find this group ineligible for ASRS membership, and 3) Also, ADOA has taken substantive steps to mitigate the possibility of erroneous ASRS enrollments going forward.

Trustees engaged in discussion with staff regarding past communications between the ASRS and ADOT. Mr. Klein noted a 1995 ASRS communication to ADOT discussing a particular clerical pool employee was relied upon and misinterpreted to apply to all clerical pool employees. A Trustee noted recently ADOA and the ASRS have closely collaborated to ensure greater clarity, so erroneous ASRS enrollments will not occur in the future. Mr. Matson noted one ASRS Board member suggested a remedy whereby future audits of the state of Arizona are conducted through ADOA, such that ADOA will be the central communicator to all state agencies regarding this type of issue.

Mr. Glick presented the Committee with the audit of ASRS Records Management. There were six findings: 1) The agency currently has a Records Management program of policies and procedures in place to properly create, store, and dispose of documents that it is responsible for, and 2) Several divisions at the ASRS have the ability to change addresses/names on the member account database. The divisions do not always follow the prescribed procedures for changing demographics consistently, and 3) The agency should consider removing from the computer system: Members' PERIS accounts, whose death date is greater than 10 years; and reports on the "P" drive that are older than the required retention period, and 4) Records retention schedules identified in the Arizona State Library Archives (ASLA) for paper records are not being consistently followed, and 5) the ASRS Data Classification Policy should be amended regarding who is to be notified when a security breach occurs, and 6) Imaging inefficiencies noted during the audit.

8. Presentation, Discussion and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Glick presented a spreadsheet containing the summary of internal audits through the period ending June 2013. The spreadsheet listed the audits, the hours budgeted, and estimates of how many hours were used to perform the audits.

9. Request for Future Agenda Items

No future agenda items were requested by the Committee.

10. Call to the Public

No members of the public were present.

11. Adjournment of the OAC

Mr. Tyne adjourned the meeting at 11:57 a.m.

Respectfully Submitted by,

Lisa Maddox
Committee Administrator

Date

Anthony Guarino
Deputy Director and Chief Operations Officer

Date



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Paul Matson
Director

MEMORANDUM

TO: The Arizona State Retirement System (ASRS) Operations and Audit Committee (OAC)

FROM: Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Mr. Patrick M. Klein, Assistant Director, External Affairs
Mr. Edward Rapoport, Benefits Administrator

DATE: August 29, 2013

RE: **Agenda Item #3:** Presentation, Discussion and Appropriate Action Regarding the ASRS Retiree Health Insurance Program Contract Renewal

Purpose

To review UnitedHealthcare's (UHC) renewal for the 2014 plan year for Medicare and non-Medicare eligible ASRS, Public Safety Personnel Retirement System, Corrections Officer Retirement Plan, Elected Officials Retirement Plan and University Optional Retirement Plan retirees, eligible disabled members, and eligible dependents.

Recommendation

Informational only, no action required.

Background

The ASRS staff and representatives from Buck Consultants negotiated with UHC regarding UHC's 2014 health insurance plans renewal. Each medical plans' cost, trend, revenue, and other critical data were reviewed, verified and discussed. The original contract was awarded January 1, 2010, for one year with four annual renewals through December 31, 2014. 2014 will be the fifth and final year of the contract (4th renewal). A Request for Proposal (RFP) for ASRS retiree medical plans will be issued in January 2014, for an effective date of January 1, 2015.

Our lengthy negotiations resulted in a premium rate-pass for the Medicare Advantage HMO and Senior Supplement Plans. Our non-Medicare Choice (in-state) and Choice Plus (out-of-state) medical plan premiums will experience a 12.7% increase beginning January 1, 2014. Plan provisions for all medical plans will remain unchanged for the 2014 plan year.

It is important to note that the ASRS participated in the US Dept. of Health and Human Services' (HHS) Early Retiree Reinsurance Program (ERRP). This program provided reimbursement to eligible health insurance plans for a portion of health care costs experienced by enrolled non-Medicare eligible retirees and their enrolled spouses, dependents, and surviving spouses. The reimbursement the ASRS received is based on 80% of claims cost for each non-Medicare eligible enrolled member for claims incurred and paid between \$15,000 and \$90,000 during a calendar year. This temporary program was authorized by the Affordable Care Act with a funding limit of \$5 billion. That limit was reached during calendar year 2011. Authorized reimbursements are to be used to reduce health care

plan premiums, reduce other out-of-pocket costs such as deductibles, copayments, or coinsurance amounts, and/or to mitigate future premium increases or plan provision changes. Reimbursements must be fully used by December 31, 2014, with any remainder returned to HHS.

The ASRS received approximately \$19.9 million and used approximately \$3.6 million to mitigate premium increases for our non-Medicare plan participants during the 2013 plan year. For 2014, the ASRS expects to use the remaining \$16.5 million to mitigate premium increases for our non-Medicare plan participants. As a result, non-Medicare plan enrolled members will see only a 5.00% increase in monthly premiums during 2014.

In addition, the ASRS continues to utilize a one-way Retrospective Rate Adjustment Agreement (RRAA) with UHC that provides a reimbursement to the ASRS if total claims expenses do not exceed 93% of revenues (i.e., the negotiated medical loss ratio). Revenues include premiums enrolled members pay, other funds and reimbursements from The Centers for Medicare and Medicaid Services for administering Medicare plans, and prescription drug rebates.

The 2011 medical loss ratio (claims expenses to revenues) was 91.7% and this resulted in a \$15,494,699 reimbursement from UHC. The 2012 medical loss ratio is expected to be 89.0%, and this should result in approximately \$20 million refund from UHC.

Arizona State Retirement System Current and 2014 Plan Premiums

ASRS Medical Plan	Current Retiree-Only Premiums	2014 Plan Year Premiums
<u>Non-Medicare Plan</u>		
UHC Choice Plan (in-state, in-network)	\$679 (\$704)	\$713 (\$793)
UHC Choice Plus (out-of-state)	\$941 (\$987)	\$999 (\$1102)
<u>Medicare Plan</u>		
Senior Supplement	\$342	\$342 (+0.00%)
Medicare Advantage HMO (urban)	\$190	\$190 (+0.00%)
Medicare Advantage HMO (rural)	\$260	\$260 (+0.00%)



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Paul Matson
Director

MEMORANDUM

TO: The Arizona State Retirement System (ASRS) Operations and Audit Committee (OAC)

FROM: Mr. Anthony Guarino, Deputy Director and Chief Operations Officer
Mr. Bernard Glick, Chief Internal Auditor
Ms. Rosie Tomforde, Audit Officer

DATE: August 29, 2013

RE: **Agenda Item #4:** Presentation, Discussion and Appropriate Action Regarding an Internal Audit Division Update on Employer Audits

Purpose

To present an overview of the Employer Audit process used by the Internal Audit Division (IAD).

Recommendation

Informational only, no action required.

Background

Employer audits are one aspect of the ASRS Audit Plan. This presentation will give background information on why and when employer audits were begun and the inclusion of employer self-audits. The presentation will also touch on the purpose of identifying eligible employees who are not participating as well as ineligible employees who are contributing. The presentation will also address IAD's Employer Auditors who interact with other divisions, such as alerting the External Affairs Division to common misunderstandings found at multiple employers.

ASRS

Internal Audit Division

Employer Audits

The Audit Plan

- Management identifies potential risks that should be addressed.
- Management recommends the involvement of the Internal Audit Division (IAD) in mitigating the risk.
- A formal risk document is prepared by ASRS management and presented to the Operations and Audit Committee periodically by management for Trustees' recommendations.
- IAD uses the recommendations made by management to determine upcoming audits.
- IAD also looks at areas that are highly material in terms of dollars or areas that have not been reviewed in the past five years.
- The Chief Audit Officer also allocates time for Director or Board requests.

The Internal Audit Division

Chief Audit Officer

Bernard Glick

Mr. Glick oversees the division and performs agency audits, as well as employer self-audits.

Employer Self-Audits:

- Are an extension of the limited number of field audits performed.
- Reduce IAD travel costs.
- Use employer versions of IAD work sheets.
- Include basic instructions on how to use them.
- May lead to an on-site visit. When employers fail to comply, we remind them several times, before scheduling a field auditor visit. These audits usually require an additional year of testing to bring them up to date.

IT Auditor

Jeff Volzka

Mr. Volzka focuses on ASRS Management and IT audits and also provides IT support to the rest of IAD.

Employer Auditors

- Adel Korish
- Larry Rennaker
- Rosie Tomforde

History of Employer Audits

- Employers do not always understand ASRS statutory requirements.
- The Chief Audit Officer initiates employer audits to ensure that ASRS employers are complying with ASRS statutes.
- Employer audits began in 2002.

Why do we have employer audits?

- Ensure compliance.
- Correct financial shortfalls.
 - Employers make errors, usually under-reporting required contributions.
 - Employers do not always include eligible members and do not always exclude ineligible persons.
 - Employers do not always update records and may continue to receive health insurance supplements on behalf of retirees who are no longer eligible.
 - Employers may not be remitting appropriate Alternate Contributions (ACR) for retirees who have returned to work.
- Complement the External Affairs Division (EAD) in their on-going educational efforts.
- Strengthen ASRS/employers relationships.

What Does an Employer Auditor Do All Day?

Ensures employer compliance with applicable statutes, rules and policies.

- **Following** 20/20 eligibility criteria.
- **Reporting** all eligible compensation.
- **Identifying** employer retirement incentive plans, which are also called salary spiking.
- **Adhering** to statutes regarding health insurance supplements.
- **Observing** statutes regarding retirees who have returned to work.
- **Remitting** required ACR payments.

What Does an Employer Auditor Do All Day? (continued)

- Verifies numbers with on-site visits.
- Identifies common misunderstandings and errors.
- Detects loopholes being used, reports these to ASRS management, and may make legislative suggestions to close them.
- Ascertains and recovers overpayments for health insurance supplements.
- Discovers other statute violations.

What Does an Employer Auditor Do All Day? (continued)

Removes ineligible contributors

- Ineligible contributors typically remit between 8% and 20% of what an average eligible member remits for the same amount of credited service.
- These reduced payments result in an unfunded liability to the fund.
- Ineligible contributors may receive benefits for which they would not otherwise have been eligible had their membership not started until they actually worked 20/20.
 - Retirement at 80 points.
 - LTD coverage.
 - Health insurance supplements.
 - Survivor benefits.

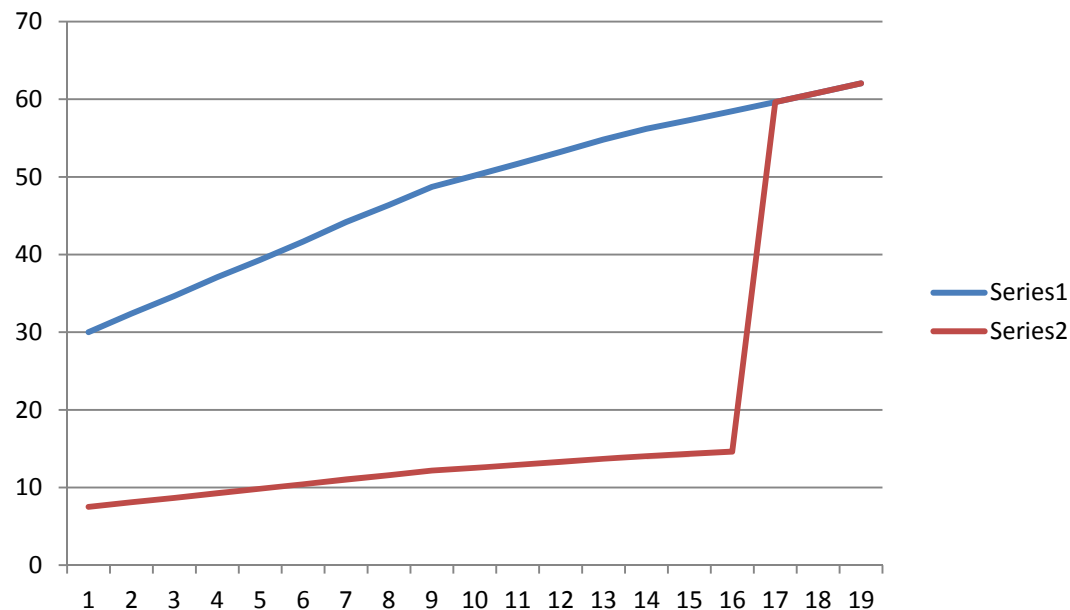
INELIGIBLE CONTRIBUTORS

This is an example of an employee who would have inappropriately participated for a number of years while working only 10 hours per week, and then bumped up to 40 hours in final 3 years..

Annual salary is in thousands over a 20-year career.

Series 1: Standard expected increase over 20 years.

Series 2: Contributor working for 10 hours per week, then 40 hours per week for final 3 years.

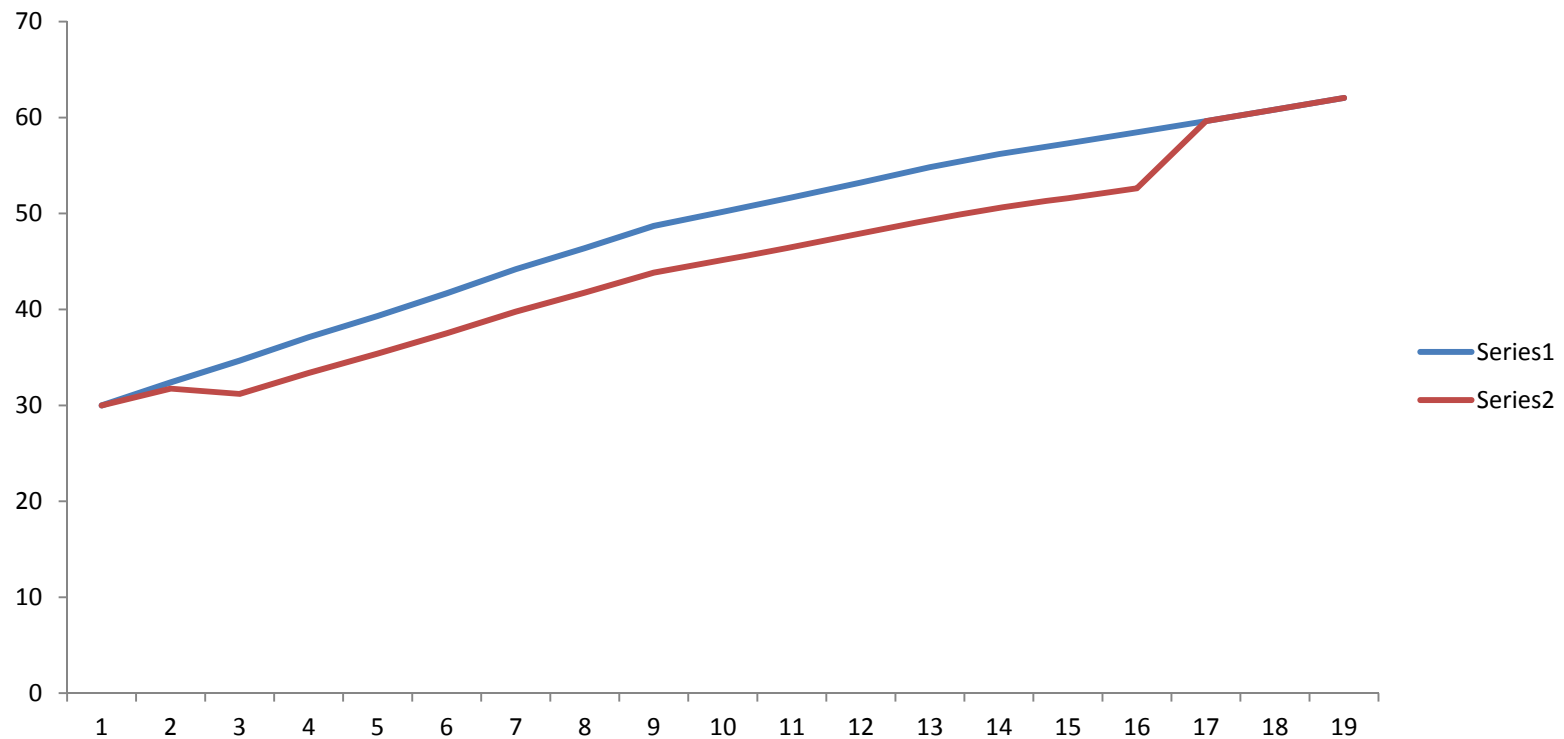


Underpayments during a career are often corrected in the last three years of reported compensation.

Annual salary is in thousands over a 20-year career.

Series 1: Standard expected increase over 20 years.

Series 2: Standard start with 10% unreported in years 3 to 16.



THE IMPACT OF EMPLOYER ERRORS

- Not including all eligible persons results in members who are denied a benefit to which they are entitled by law.
- Not remitting contributions on all eligible compensation results in a shortfall to our fund.
- Improperly remitting contributions for ineligible persons results in increased unfunded liabilities.
- Improperly paying ineligible health insurance supplements results in a shortfall to the HBS fund.

POSITIVE RESULTS:

- Employers who have been sending in contributions on only part of their employees' compensation are identified and required to remit full contributions on all eligible compensation, such as a teacher who had not been remitting contributions for pay for coaching or tutoring.
- Employers return health insurance supplements when such supplements are identified as being provided to ineligible retirees.
- Employers who haven't remitted final Prop. 301 contributions for employees who retire or terminate do so without being awarded additional service credit.
- The ASRS keeps the employer match even if the members are no longer working for an ASRS employer.
- Unfunded liabilities are removed.

HOW DO AUDITORS DEAL WITH EMPLOYER MISUNDERSTANDINGS?

- If it is a misunderstanding that only one employer has, the auditors can clear it up in the one-on-one discussions.
- If it is a misunderstanding that several employers have, EAD can be informed so that any misunderstandings may be addressed in the annual employer conferences.
- If it is a misunderstanding that comes from an unusual interpretation of the statutes, the agency's assistant attorney general can be consulted.

SUMMARY OF VALUE ADDED BY EMPLOYER AUDITS

- Members who had been inadvertently excluded are now participating.
- The fund sees a reduction in liabilities when ineligible contributions are credited back.
- The IAD learns and reports some of the unexpected ways that our employers are interpreting our statutes. Employer auditors correct misunderstandings.
- Legislative suggestions can be proposed to close identified loopholes.
- The ASRS enhances the level of awareness and strengthens employer relationships.

**A REPORT TO THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM
INTERNAL AUDIT**

MEMBER ADVISORY CENTER (MAC) AND E-MAIL (ASKMAC)

SEPTEMBER, 2013

ARIZONA STATE RETIREMENT SYSTEM
INTERNAL AUDIT
MEMBER ADVISORY CENTER (MAC) AND E-MAIL (ASKMAC)
SEPTEMBER, 2013

The Internal Audit Division (IAD) completed an audit of the Member Advisory Center (MAC) and E-mail (ASKMAC), both functions of the Member Services Division (MSD), in April, 2013.

The audit objectives were to ensure that:

- 1) Adequate written procedures exist that provide guidance and direction over the various functions performed by the MAC and ASKMAC.
- 2) Adequate metrics exist for tracking and reporting on departmental and individual staff performance and quality measures.
- 3) The Automated Call Distribution (ACD) system has adequate capabilities and is being monitored and utilized in support of management goals.
- 4) Adequate training exists for MAC and the ASKMAC staff.
- 5) Adequate call volume forecasting, scheduling, and staff utilization plans are in place to effectively handle peak call volume and off-peak idle time
- 6) Adequate mitigation efforts exist to reduce potential call volume growth or spikes.

The scope of the audit encompassed the examination and evaluation of the internal control structure and the quality of performance in carrying out assigned responsibilities for the audited area. The tests were designed to obtain sufficient, competent, and relevant evidence to provide a reasonable basis for our conclusions.

The Arizona State Retirement System (ASRS) administration is responsible for establishing and maintaining the internal control structure. Because of the inherent limitations in any internal control structure, errors or irregularities may occur and not be detected.

Based on the results of work performed to meet the audit objectives, the following statements summarize the internal recommendations presented to the ASRS administration with the Internal Recommendations Supplement.

Generally, the objectives of the audit were met; however, the following areas could benefit from refinement of certain program monitoring and controls:

- The scheduling tool used to plan for the daily staffing needs of the MAC does not reflect actual seated staff counts for those days.
- Performance Measures (PMs) have adequate controls in place or in progress. Specific areas were noted where refinement of PMs could be of benefit to the MAC.
- Quality Assurance (QA) over calls has good controls in place currently and a group of cross-trained staff who handle a specific number of reviews monthly. However, the video element of the recorded reviewing process is reported to be possibly ending in the near future.
- MAC operational reports contained minor data errors, missing headings and labels. The Daily MAC report needs additional information to improve on staff reporting. Also, some historical call data is stored with outdated and inaccurate references, formula errors, and date errors.

ARIZONA STATE RETIREMENT SYSTEM
INTERNAL AUDIT
MEMBER ADVISORY CENTER (MAC) AND E-MAIL (ASKMAC)
SEPTEMBER, 2013

- Added training in the use of the AVAYA CMS supervisor reporting module is needed to improve the data gathering and management capabilities for MAC management. Also, reminder training is needed to ensure all staff log out of applications to the network level so that system updates can be accomplished when needed.
- Though existing Standard Operating Procedures (SOPs) for MAC and ASKMAC are generally thorough and complete, some areas are still being developed, such as QA, and there were important areas of reporting that have inadequate detail on how the process is completed. Also, there are a number of outdated and unused documents and spreadsheet files related to MAC and its past management on the P drive, and to a lesser extent on IQ.

BACKGROUND

The Member Advisory Center is operated by the Member Services Division (MSD) with its operational goal to “provide members with easy and timely access to current account information and various educational services to help plan and manage their retirement.” MAC holds an important and vital role at the ASRS because it is often the first point of contact for many members. As such, the speed with which calls are answered, the courtesy and professionalism of the agents, and the accuracy and timeliness of the information provided are all key elements in achieving a high standard of member service and satisfaction.

The MAC has a primary location at the Phoenix ASRS offices, with a backup phone site located at the Tucson office for disaster recovery purposes.

MAC was last audited in Fiscal Year (FY) 2006, when it was then known as the Member Service Advisory Center (MSAC). At that time, MAC was handling about 203,000 calls per year, with about 21 FTEs, and had a four-week training cycle for new hires. It had also recently implemented the enhanced service level objectives that are still in place today, a key one being 80% of calls answered in 20 seconds or less. Today’s MAC is on track to handle about 220,000 calls in FY 2013, with average dedicated agent counts estimated at 15-18 FTEs due to high turnover. With this level of staffing, the unit can reasonably be expected to handle about 100 calls per hour at the 80% service level. Unfortunately, about a third of the daily call projections for FY 2013 have intervals in excess of 100 calls per hour. This has led to service level timeliness being reached in only August of 2013, with two additional months in the upper 70% range, and a Fiscal Year-to-Date (FYTD) average of 62.1% of calls answered in 20 seconds or less.

In FY 2006, ASRS membership was about 488,000, of which 85,000 were retirees. As of FYE 2012, ASRS membership was reported at 536,000, of which 112,000 were retirees. These figures represent increases of 10% in ASRS membership and 32% for retirees.

Since FY 2006, call volume to the MAC has varied considerably, from a low of 203,000 up to 252,000 in FY 2011. To reduce or slow the growth of call volume, the ASRS has implemented various initiatives to shift member behavior toward self-service via the ASRS website. Some examples of these are: members’ online accounts for self-access to information and services, smart-forms, remote online counseling, appointment schedulers for walk-in visits and outreach meetings, interactive webinars, webcast tutorials, and a quarterly e-newsletter. Based on the success of these measures, call volume has declined and is projected for FY 2013 to be at the same level as FY 2012. With the exception of

ARIZONA STATE RETIREMENT SYSTEM
INTERNAL AUDIT
MEMBER ADVISORY CENTER (MAC) AND E-MAIL (ASKMAC)
SEPTEMBER, 2013

two months (February and April), when unusual events impacted call volume, the FY 2013 projections have been at or below the projected levels.

As mentioned above, as of mid-April 2013, the MAC staff turnover was 48.3% on an annualized basis. This is up from a rate of about 36% in FY 2006. Such high turnover is generally due to the stress level associated with the highly monitored environment in which most of the unit works, though recent improvements in the job market may be a contributing factor. The unit is currently budgeted for 29 phone agents, three call coaches, three supervisors, three research staff, and the manager, for a total compliment of 39 persons. As of May 20, actual seated phone agents numbered 18, with six vacant positions, and four new hires still in training (of a class of seven that began in April 2013). One call coaching position became vacant recently as well.

The difficulty of maintaining a sufficient MAC workforce is exacerbated when the training for newly hired phone agents generally consists of six weeks of classes, followed by two weeks of side-by-side training with an experienced agent. Prior to training, the hiring process takes roughly two months to advertise, interview, cull, and select the candidates for the next training class. As indicated previously, attrition takes a toll on members of the training class as well. Overall, the cycle of hiring and training can seat a new group of phone agents every four months, or three times a year.

Due to the persistent staffing shortfalls, assistance from outside MAC is necessary, though additional staff from other MSD areas is not always available, as they have their own functions and goals to address. We estimate that current dedicated call center staff should be able to answer approximately 100 peak time calls per hour within service levels, all other factors being equal. Peak time call volumes in excess of that would require assistance from additional personnel not already dedicated to answering calls. These could be Benefit Advisors (BA) from elsewhere in MSD, MAC research staff, call coaches, or supervisors.

Commendably, MAC management has taken steps to relax the heavily monitored work environment to some degree, and it is also trying to obtain monetary incentives for staff who remain in the unit over periods of time, which could possibly help lower rates of turnover to a more manageable level.

Two of the primary service level goals of the MAC are to answer 80% of all calls within 20 seconds or less, and maintain an abandonment rate for calls at less than 5%. These goals are difficult to achieve without adequately seated staff. Three other objectives for the MAC are member satisfaction at 90% or greater, call quality at 95% or greater, and full call resolution on initial contact at 97% or greater. Generally, these last three objectives have been met throughout FY 2012 and FYTD 2013, which indicates some degree of tolerance for longer call answering times during certain periods of the day.

DESCRIPTION OF AUDIT WORK PERFORMED

The audit work performed during this engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. IAD reviewed the internal control structure, interviewed personnel, obtained and reviewed documentation, and performed analytic reviews when appropriate. IAD performed tests of the existing systems to provide sufficient evidence that controls were in place and being monitored, or were needed.

Some of the tests performed were:

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- Review of existing policies and procedures, including desk procedures for the management and operations of the MAC and ASKMAC areas.
- Review of call volume forecasts and testing of same for appropriate accuracy and usage.
- Review of planned staffing schedules and testing of same for appropriate accuracy and usage.
- Review of schedule monitoring controls over tardiness, sick, and annual leave, etc.
- Review of MAC historical call data and reporting, including outdated files and SOPs.
- Review of AVAYA CMS Supervisor reporting capabilities and the use of them.
- Review of whether MAC's strategic objectives were achieved for the period audited and what performance measures are used and how they are applied.
- Review of TSD's support of technology issues related to the MAC.
- Review of call mitigation efforts in reducing call volume.
- Review of AVAYA "logged in" times for staff and management of the MAC
- Analysis of unplanned staff shrinkage and its impact on staffing needs.
- Analysis of Erlang C calculations for MAC staffing requirements.
- Analysis of calls placed on hold over a number of days.
- Analysis of reporting generated and existence of appropriately detailed SOPs for then.
- Observation of call quality reviews for a sample of randomly selected calls.
- Observation of staff in call center.
- Interviews and discussions with MSD management and MAC management and staff.
- Surveys of staff on assigned break and lunch times and primary timeliness objective for calls.
- Testing of the existing routings for the Automated Call Distribution (ACD) system for accuracy and effectiveness.

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FINDING 1:

The scheduling tool used to plan for the daily staffing needs of the MAC does not reflect actual seated staff counts for those days.

Our testing revealed the following:

- The staffing schedule is usually produced a month in advance and not kept updated for changing conditions. Call center (CC) staff appearing on the schedule sometimes were not present on the day scheduled. Others were found to be handling calls, though they were not on the schedule for the day. One person was listed as on annual leave but was handling calls, and staff members who had departed for another department remained on the schedules for periods of time. Also, some events that are known in advance are not included on the schedule; training and Town Hall meetings are examples of these.
- Unplanned staff shrinkage, such as tardiness and illness, is not tracked daily or over time for the purpose of determining a viable way of taking it into account. It was tested to be as high as 23% in a single day and can be a significant factor in creating staff shortages on most days.
- When staff is on the schedule and counted towards the required staff level, they should be dedicated to answering calls, not merely monitoring the queues or assigned to other functions during the time designated for taking calls. Deviations from the assigned task of answering calls skews expected results, because Erlang C calculates staff requirements for answering calls only.
- Call volume projections discovered to be inaccurate due to identifiable events that are expected to continue are not proactively revised to reflect new staff levels required to handle the new projections. This occurred for Monday, April 15, when the Financial Horizon's newsletter created an unexpected increase in calls of 38%, along with a service level of only 1% (10 of 1017 calls answered within 20 seconds) and 385 abandoned calls for the day. Though the increase could reasonably be expected to continue into Tuesday, which had a 54% increase in projected calls, no adjustments to the staffing schedule were made.

Based on call duration and projected call volume, Erlang C calculates needed staff to achieve the primary service level goal of 80% of calls answered in 20 seconds or less. The daily schedule is then generated, which attempts to allocate available staff to meet the Erlang C numbers. Days early in the week have more calls than days later in the week, and certain intervals of the day have more calls than others. The distribution is projected in the schedule and extra staff needed for peak call times is assigned as available. Non-MAC staff is regularly called upon to assist with answering calls, but, there are often insufficient numbers of staff to address expected calls during peak call loads. However, addressing the above conditions would improve the accuracy of the scheduling process and allocation of staff to the specific function of responding to member calls.

Recommendation(s):

- a) Include all known staffing events on the schedule as planned shrink and revise the schedule as needed to arrive at more accurate counts of required compared to planned staff.
- b) Begin tracking unplanned shrink and develop a method for it to be factored into staffing calculations so the seated staff counts more accurately represent what is planned for.
- c) The staffing schedule should be a dynamic tool that changes as variables impacting it change. Accuracy is an essential element, so the schedule should be monitored closely to ensure errors are caught and corrected expeditiously.

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- d) Staff assigned to handle calls on the schedule should be dedicated to doing so, and not some other task.
- e) Confirmations from non-MAC staff should be obtained via e-mail the morning they are scheduled to ensure they are still available, not out sick, and as a reminder.
- f) Inter-day triggers that indicate declining service levels should be identified and used as a basis for determining whether quick-response back-up assistance is needed to handle calls. An existing hierarchy of back-up staff should then be tapped to assist whenever available.
- g) MAC management should use its judgment to address corrections to call forecasts, and related staffing requirements, that may be warranted based on their perception of events impacting the unit's ability to perform its mission.

Administrative Response:

MAC Management generally agrees with the recommendations in this finding. It is important to track staff allocations accurately in order to properly predict needed staff on any given day.

- a) Management agrees that the schedule should be updated more frequently based on known staffing changes or revised planning decisions (such as, mid-month terminations). The Resource Allocation schedule is created once per month and is updated when there are major events that dramatically, and for a sustained period, will impact the expected calls (ie. incorrect taxes on 66,000 members resulting in 50% more calls than planned).
- b) Agreed. The current model allows for a certain percentage of unplanned "shrink" each day (factor = 11% to cover unproductive time). The factor will be modified to include average sick leave and FMLA time on an ongoing basis. The factor will also be modified when there are staffing changes mid-month that affect the remainder of the month.
- c) Agree that errors should be caught and the schedule updated if any are found.
- d) The MAC management staff constantly monitors the queues, which staff is on phones, and which staff is currently not taking calls due to processing requirements. MAC management then modifies allocations of staff dynamically in "real time" and with significant thought as to what our goals are, but do not document those changes in the resource staffing model and do not change projections through end of month.
- e) Agreed.
- f) See answer to d.
- g) See answer to d.

FINDING 2:

Performance Measures (PMs) have adequate controls in place or in progress. Specific areas were noted where refinement of PMs could be of benefit to the MAC.

These were:

- a) Individual agent monitoring and PMs for them are generally good, though two areas were noted as having a potential for misleading reporting. The first area is the TOP 10 BA Report, as follows:

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- The Top 10 BA Report provides a periodic review of call agents and ranks the Top 10 according to five criteria plus their call quality score. The five criteria are:
 - Number of calls answered.
 - Duration of call (parameter < 300 seconds = 5 minutes).
 - Duration of after-call wrap-up (parameter < 130 seconds = 2.16 minutes).
 - AUX-personal time (allowed 15 minutes per day; parameter < 600 seconds = 10 minutes per day)
 - AUX-work related time [non-lunch & breaks] (allowed 45 minutes per day; parameter < 1800 seconds = 30 minutes per day).
 - The TOP 10 BA reports we reviewed were not labeled as to the date or period of time covered by the report.
 - Though the AUX-personal time parameter is less than 10 minutes, reviewing two of the TOP 10 BA Reports show 30% and 40% of the Top 10 had personal time in excess of the desired parameter, yet still appeared on the list. It is our understanding that excessive use of this time is not a concern, if other criteria are ranked sufficiently high for top 10 status.
 - Though the AUX-work related time parameter is less than 30 minutes, reviewing two of the TOP 10 BA Reports show 90% and 30% of the Top 10 had this AUX time in excess of the desired parameter, yet still appeared on the list. It is our understanding that excessive use of this time is not a concern, if other criteria are ranked sufficiently high for Top 10 status.
 - The allowance for personal and AUX time amounts to an hour per day which may, or may not, be needed and used. This view is enforced by the MAC parameters of 10 and 30 minutes, which is 20 minutes less than the hour allowed. We observed examples of AUX time apparently used much more than the hour per day allowed.
 - In summary, the Top 10 BA report could provide accolades to BAs that may be inefficient in the use of personal and work related AUX time, since MAC management doesn't closely monitor this time.
- b) The second area is the monthly scorecard for each BA that has a schedule adherence score that is based on the total time spent by the agent in AUX-time lunch and break periods for the month. This is compared to total allowable time for these periods for the month. The score is 100% if the time spent is less than the time allowed. There is no consideration of when breaks are taken during a day, or whether break times may be shifted to another day. Testing of when agents actually took breaks and lunch, compared to when they were scheduled for them, showed this scoring method to be of questionable integrity. Our testing showed roughly 50% of 18 BAs tested for a randomly selected half-day period did not take breaks and lunch when scheduled and expected to. Several took breaks and lunch periods as much as 30 minutes to 2 hours later than scheduled. One took back-to-back personal time of 6 minutes and break time of 15 minutes. The results were essentially the same regardless of which schedule was used for comparison: the 36 increment schedule or the new 108 increment "rolling release" schedule implemented in March. Based on this testing, we concluded it is highly probable that BAs are being given schedule adherence scores they know themselves are not indicative of their actions.
- c) An area not currently reported on is calls placed on hold. We conducted an on-hold analysis for calls over several days for all BAs. The analysis identified:

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- Specific agents who were placing an unusually high number of their answered calls on hold each day.
 - The average percentage of calls placed on hold by all agents was slightly under 20%.
 - The percentage of calls placed on hold by several agents tested was over 40%, with one as high as 70.7% in a single day.
 - For new hires versus experienced staff, the ratio of calls placed on hold was 4 to 1; the ratio of average length of time on hold was roughly 5 to 1. Several of the agent's average time on-hold per call was observed to be 4 to 6+ minutes.
 - A call placed on hold extends the call duration time, and the overall call time of 6.5 minutes upon which the Erlang C staffing numbers are based.
 - Placing calls on hold consistently is most likely indicative of a confidence problem in the ability to answer calls, which may require additional side-by-side training or coaching. It could also be a means to intentionally avoid handling calls. However, QA monitoring would eventually find this sort of unneeded call holding.
- d) During the audit, we surveyed MAC staff to determine their understanding and awareness of the unit's primary performance goal of 80% of calls answered in 20 seconds or less. Very few of those questioned were aware of the measure.

According to "Call Center Management – On Fast Forward," authored by Brad Cleveland and Julia Mayben, "Part of taking a service level objective seriously means getting the buy-in of everyone who is involved in achieving it. To reach your target, reps, supervisors, managers, and those with supporting roles should know what the service level objective is, why it was set where it is, and whether or not it is being met. A value system that people do not understand will have little or no impact."

Also, during the audit it was observed that when management meetings take place, the Mac staff does not perform as well as when a call coach or supervisor is present. This was readily acknowledged by MAC supervision, and can reasonably be expected in a heavily monitored environment. A teamwork approach for the unit could result in more self-monitoring by staff and higher productivity.

Though no system can anticipate all the controls that may be needed or warranted, and costs can outweigh benefits with regard to capabilities of systems. Existing PMs provide a good level of monitoring and controls at this time. However, refining them would improve clarity over what precisely is being measured, since the current Top 10 BA Report and individual schedule adherence measurement skews agent performance with an overly optimistic interpretation. Secondly, the lack of reporting for calls on hold relegates this problem area to being identified via observation, rather than empirical data. Finally, team goals not known and promoted as important are not targeted appropriately by staff.

Recommendation(s):

Management should:

- a) Revise its methodology with regard to the Top 10 BA Report. MAC management should be cautious in rewarding BAs by inclusion on this report, when AUX time is in excess of what they have determined to be an acceptable level. At the least, if used as criteria for this report, AUX time should be periodically evaluated to ensure it is being used legitimately and not abused to avoid answering calls.

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- b) Modify the monthly scorecard for the schedule adherence measure to properly describe that it reflects only a certain element of adherence, that being total break and lunch time to time allowed. If actual daily adherence to schedule is monitored through periodic observations by MAC management, then perhaps this added element could also be added to the monthly scorecard.
- c) Develop an effective on-hold report that can be run periodically. Such a PM would be very useful in quickly identifying agents that may need more training and who are contributing to extending call duration times beyond the 6.5 minutes used as a basis for staffing calculations.
- d) Make staff aware of the unit's purpose in answering member calls as a team that must work together, as well as individually. Informing staff of how essential what they do is, and sharing often the results of their efforts and hard work, is important in obtaining their cooperation and interest in achieving the unit goals.

Administrative Response:

- a) MAC agrees that staff should be recognized based on meeting all requirements of the position, including proper usage of AUX codes. MAC managers have the ability to allow for exceptions to the adherence rules when reasonable and/or mitigating circumstances occur.
- b) MAC agrees that staff should be tracked according to adherence rules set in place, including lunch, breaks, AUX codes, etc. MAC uses various methods to track adherence in real time and for monthly reporting, and managers have the ability to allow for exceptions based on reasonability factors. Staff is made aware of adherence to break/lunch schedules on a monthly basis, or more often as warranted.
- c) The MAC has secured a report that gives hold times and is actively using it.
- d) The MAC will make extra efforts to emphasize the importance of individual stats and how those affect the overall goals of the department.

FINDING 3:

Quality Assurance (QA) over calls has good controls in place currently and a group of cross-trained staff that handle a specific number of reviews monthly. However, the video element of the recorded reviewing process is reported to be possibly ending in the near future.

About two years ago, ASRS management addressed a recommendation from the 2006 MAC audit, which called for improved capabilities in the way calls are monitored to ensure quality and accuracy. A call recording system was implemented, with voice recording and video recording of call agent screens, so reviewers could see and playback what transpired during a call. In the past, call quality reviews were conducted in real time and only through listening to the call, with no view of the agent's screens to see what areas were being accessed in addressing the call. This had the potential for many of the review parameters to be missed, since reviewers could not see what the agent was doing on the system, and trying to record scores for multiple parameters in real time is difficult.

With the current call recording system limited to only the voice portion, reviewers will be back in the dark again with regard to seeing how the agent handled the call. They will need to rely solely on the voice recording to complete the reviews, which would most likely be delayed while reviewers try to

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determine what the agent was doing based on the voice interaction alone. This delay may not be too long, since there are only a limited number of call quality reviews done each month per agent. Of course, the reviewers would still have the ability to playback the voice portion of the recorded call.

If the cost of a three-year retention period is indeed an issue, perhaps setting new retention periods, or obtaining a waiver for a shorter period, could salvage the video portion of call recording by making it less expensive. A lack of video creates a lessening in QA review effectiveness by limiting the reviewer's ability to see what screens the agent was using in responding to the member's call.

Recommendation:

Management should consider retaining the current video capability of the QA call recording system.

Administrative Response:

Management agrees.

FINDING 4:

MAC operational reports contained minor data errors, missing headings and labels. The Daily MAC report needs additional information to improve on staff reporting. Also, some historical call data is stored with outdated and inaccurate references, formula errors, and date errors.

We noted:

- a) The Daily Mac report has a wealth of data and helpful charts on call volume and staffing during the 18 half-hour intervals from 8 a.m. to 5 p.m. each day. We found several minor errors with the report and presented these and other potential improvements in content to MAC management. As of this report, most of the issues were corrected, with a few left to be addressed. These are reflected in the recommendations.
- b) Current historical stats and data files contain missing or broken links, reference inaccuracies, formula errors for abandoned calls in the noon interval and in the first and last interval of the day, data transfer errors, and a few inaccurate daily dates.

Adequate and detailed SOPs are needed for these areas. The inconsistent generation of the Daily MAC report and the lack of a work aid or checklist for all the various data elements that go into it, could contribute to some of the errors indicated above. With regard to the stored call center data; unless exceptional care is taken with copy and paste routines, and periodically verifying the results, key strokes can be made which inadvertently alter data or formulas. Inaccuracies in stored call center data can cause an inability to understand reported results, inaccurate call projections, and confusion for readers.

Recommendation(s):

Management should:

- a) Determine an accurate method of obtaining a reported actual staffing number from the AVAYA CMS reporting tool.

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- b) Add two additional lines to the Daily MAC report: 1) Erlang C "Required staff," and 2) "Planned staff" after all shrinkage. MAC management will then have the benefit of a comparison of Required, Planned, and Actual staffing to better identify where refinements are needed for staffing in order to achieve service levels.
- c) Establish criteria for maintaining stored call center data and periodically verifying that the criteria has been consistently met, and the data accurate, before using it for projections or reporting.

Administrative Response:

- a) The MAC is currently working with TSD and AVAYA (phone vendor) to create a report that accurately gives staffing level.
- b) Once the MAC is able to recreate the above report, this will be completed.
- c) The MAC will create an SOP that addresses stored data. It will address the accuracy of the data and the storing of data.

FINDING 5:

Added training in the use of AVAYA CMS supervisor reporting module is needed to improve the data gathering and management capabilities for MAC management. Also, reminder training is needed to ensure all staff logout of applications to the network level so that system updates can be accomplished when needed.

We noted:

- a) Needed AVAYA CMS reports had been deleted accidentally in the recent past, and there was some delay in recreating them.
- b) MAC management has requested assistance in using AVAYA's CMS reporting module to better understand how it functions and how to use it more effectively to report on call center results.
- c) IAD has learned that TSD has recently provided MAC management with contacts for AVAYA CMS report training, and cleared the way for access, if funding and time is available.
- d) Some MAC staff log into AVAYA for 24 hours every day. This practice interferes with system updates when TSD staff must force a log-out in order to complete a system change.

Recommendation(s):

Management should consider allocating time and resources to obtaining AVAYA CMS report module training for appropriate MAC staff, which could then leverage that training to other ASRS call center staff for future use.

Administrative Response:

Management agrees.

FINDING 6:

Though existing Standard Operating Procedures (SOPs) for MAC and ASKMAC are generally thorough and complete, some areas are still being developed, such as QA, and there were important areas of reporting that have inadequate detail on how the process is completed. Also, there are a number of outdated and unused documents and spreadsheet files related to MAC and its past management on the P drive, and to a lesser extent on IQ.

We noted:

- a) Six AVAYA CMS reports that were once available to MAC management staff had inadvertently been deleted from the report menu shortly before the audit began. MAC management was able to recreate the reports.
- b) AVAYA CMS reporting is only available with detailed call data for 45 days from the current date. Therefore, all reports needing such detail must be run and exported for storage and retention outside AVAYA.
- c) An outdated 66 page SOP on reporting from a past MAC management group was found on IQ, complete with screen shots. This SOP could be salvaged and possibly modified to meet existing needs without a complete rewrite.

Recommendation(s):

Management should:

- a) Create detailed SOPs for all reporting functions currently completed by MAC management.
- b) Continue completing those SOPs that are underway, and develop a periodic review process for all SOPs in order to maintain them in an up-to-date fashion.
- c) Cull or archive outdated SOPs, documents, and files apart from those currently utilized, to safeguard against their inadvertent use in current processes.

Administrative Response:

- a) The MAC agrees with this finding and has taken steps to rectify it. Owners of specific processes have been tasked with creating comprehensive SOPs for their area, with progress at about 75% complete.
- b) All SOPs will be scheduled for an annual review.
- c) The MAC is currently doing an audit of all the items stored in the shared drive and is actively deleting, moving, and updating items. This is approximately 25% done.

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INTERNAL AUDIT**

NEW RETIREE – PENSION AUDIT AND SURVIVOR BENEFITS

SEPTEMBER, 2013

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NEW RETIREE – PENSION AUDIT AND SURVIVOR BENEFITS
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The Internal Audit Division (IAD) completed the audit of the New Retiree - Pension Audit and Survivor Benefits processes in the Financial Services Division (FSD) on August 9, 2013.

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The audit objectives were:

1. An adequate internal control structure and written procedures exist for the roles and responsibilities of the New Retiree - Pension Audit and Survivor Benefits processes.
2. New Retiree - Pension Audit calculations are accurate to within the Strategic Plan requirement of +/- 2%.
3. Survivor Benefits calculations are accurate to within the Strategic Plan requirement of +/- 2%.

The scope of the audit encompassed the examination and evaluation of the internal control structure and the quality of performance in carrying out assigned responsibilities for the audited area. The tests were designed to obtain sufficient, competent, and relevant evidence to provide a reasonable basis for our conclusions.

The Arizona State Retirement System (ASRS) administration is responsible for establishing and maintaining the internal control structure. Because of the inherent limitations in any internal control structure, errors or irregularities may occur and not be detected.

Based on the results of work performed to meet the audit objectives, the following statements summarize the results of our testing and the internal recommendations presented to the ASRS administration with the Internal Recommendations Supplement.

For the New Retiree - Pension Audit and Survivor Benefits processes, we found controls and monitoring to be adequate. However, some of the Standard Operating Procedures (SOPs) for these areas were found to be somewhat outdated and in need of revisions and corrections.

During our testing of new retiree pension calculations we found no errors in excess of the Strategic Plan margin of error of +/- 2%.

One error was found during our survivor benefits testing that was in excess of the Strategic Plan margin of error of +/- 2%.

In addition, one member was found to have a date of death in the PERIS system that did not agree with the member's death certificate. The benefit calculation was not impacted and FSD staff corrected this error upon being notified of it.

BACKGROUND

The ASRS has the fiduciary responsibility of providing a source of monthly income to its roughly 115,000 retired members and survivor beneficiaries. In this capacity, the ASRS is tasked with ensuring its member retirees and their survivors receive timely and accurate payment of their retirement benefits. As a result of highly experienced staff and the controls that are in place, the accuracy of these calculations has been shown by testing to be very good over time.

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The ASRS also has the role of determining benefits to survivors when an active, inactive, or retired member dies. This role can be quite complex when circumstances include a variety of benefit options, court orders, multiple beneficiaries, and legislative changes.

Both the areas under review have experienced upgrades in the past few years. These upgrades have generally maintained the same high level of accuracy in the calculation of benefits, while also providing improved efficiency, monitoring, and workflow enforced reviews of processing and calculations.

DESCRIPTION OF AUDIT WORK PERFORMED

The audit work performed during this engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. IAD reviewed the internal control structure, interviewed personnel, obtained and reviewed documentation, and performed analytic reviews when appropriate. IAD performed tests of the existing systems to provide sufficient evidence that controls were in place and being monitored, or were needed.

Some of the tests performed were:

- A review of existing written policies and procedures, including desk procedures.
- A review of the accuracy of reported counts of new retirees.
- A review of the death reporting process and determination of survivor benefits.
- Random sample testing of the new retiree – pension audit population for Fiscal Year (FY) 2013 to determine accuracy of calculations.
- Random sample testing of the survivor benefits payment population for FY 2013 to determine accuracy of calculations.

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NEW RETIREE – PENSION AUDIT AND SURVIVOR BENEFITS

INTERNAL RECOMMENDATION SUPPLEMENT

SEPTEMBER, 2013

INTERNAL FINDINGS AND RECOMMENDATIONS:

1. **For the New Retiree - Pension Audit and Survivor Benefits processes, we found controls and monitoring to be adequate. However, some of the Standard Operating Procedures (SOPs) for these areas were found to be somewhat outdated and in need of revisions and corrections.**

IAD identified the following:

- Various files mentioned in the SOPs could not be located where the SOP stated they should be on the P drive. If file paths change, or if processes have changed to no longer use those files, the SOPs should be updated to reflect the new locations and/or processes.
- Missing words and other minor corrections to grammar.

RECOMMENDATION(S):

1. Review and update SOPs where necessary. Establish a method to periodically review SOPs to ensure they remain timely and accurate.

ADMINISTRATIVE RESPONSE:

Management agrees with this finding.

We recognize that SOPs should be periodically reviewed and updated. With legislation, automation, and manual process changes, the creation, reviews and updates are an ongoing process. Currently, there is a vacant supervisor position in Benefits Accounting and we are actively recruiting. One of this position's responsibilities will be updating SOPs.

2. **During our testing of new retiree pension calculations we found no errors in excess of the Strategic Plan margin of error of +/- 2%.**

We identified the population of 8,949 new retirees from PERIS for FY 2013 and sampled it randomly to obtain representative items for testing. To ensure that retirement processing and calculations were completed for our sample items we excluded retirements that had not yet reached a final review. We then independently calculated the pension benefit amount based on known criteria and business rules from established desk procedures. We then compared our figures to the actual pension amount being paid to the retired member. The criteria for a reportable exception were set at the Strategic Plan goal of greater than or equal to 2% (plus or minus). Our testing produced no sample item that had a variance outside the acceptable range.

RECOMMENDATION(S):

No action is needed at this time.

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- 3. One error was found during our survivor benefits testing that was in excess of the Strategic Plan margin of error of +/- 2%.**

In addition, one member was found to have a date of death in the PERIS system that did not agree with the member's death certificate. The benefit calculation was not impacted and FSD corrected this error upon being notified of it.

We identified the population of 1,608 survivor benefit payments from PERIS/POL for FY 2013 and sampled it randomly to obtain representative items for testing. Though random, the sample included retirees, LTD members, and active and inactive members. We then independently calculated the survivor benefit paid based on known criteria and business rules from established desk procedures. We then compared our figures to the actual survivor benefit paid. The criteria for a reportable exception were set at the Strategic Plan goal of greater than or equal to 2% (plus or minus). Our testing produced one minor exception that had a variance outside the acceptable range. The total variance for this exception was less than \$29.

A checklist exists in POL for use by staff in ensuring that survivor benefit documents and data are verified as being present or confirmed. The death date error indicates a lapse in effective usage of this checklist.

RECOMMENDATION(S):

1. When calculating additional survivor benefits after the initial payment, the gross amount of any payments already made should consistently be used. In the case of the single exception found during testing, a net payment amount (after taxes) had been used, thereby understating past disbursements.
2. Periodic reminders to staff that POL checklists are an important tool to ensure all necessary processes are completed properly.

ADMINISTRATIVE RESPONSE:

Management agrees with this finding.

1. We have reiterated with staff to consistently use the gross amount of any payment made to the member when calculating remaining survivor benefits.
2. We have reiterated with staff that POL checklists are an important tool to ensure all necessary processes are completed properly.

**A REPORT TO THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS**

PIMA COUNTY

SEPTEMBER, 2013

ARIZONA STATE RETIREMENT SYSTEM
PIMA COUNTY
SEPTEMBER, 2013

The audit of Pima County was completed May 15, 2013, for the period July 1, 2009 through June 30, 2012.

The audit objectives were to determine whether Pima County is in compliance with Arizona State Retirement System (ASRS) statutes governing the following:

1. Eligible compensation and required contributions reported to the ASRS.
2. Accurate and timely enrollment of all eligible employees.
3. Reporting and remitting of the employees' and employer's share of contributions.
4. Medical and dental insurance premium benefits payable to retired employees.
5. Rules governing retirees' return to work.
6. Rules governing termination incentive programs.

SUMMARY OF FINDINGS:

Based on the results of the work performed to meet the above audit objectives, the following statement summarizes the finding presented to Pima County:

Pima County:

- Did not timely inform the ASRS that 16 retired members were no longer covered through Pima County's insurance coverage under COBRA resulting in ASRS medical and dental insurance premium benefit overpayments.
- Utilizes a tracking system for their intermittent part-time employees to determine the 20 hours, 20 weeks eligibility criteria. This tracking system was tested and found to be accurate and reliable for determining intermittent part-time employees' 20 hours, 20 weeks eligibility. Pima County was complimented for the accuracy and reliability of their tracking system and was encouraged to continue its usage.

BACKGROUND

Pima County joined the ASRS on January 1, 1954, by executing an Application and Social Security 218 agreement, and currently has approximately 6,000 employees contributing to the ASRS.

DESCRIPTION OF AUDIT WORK PERFORMED

The audit work performed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2009 to June 30, 2012. Documentation was reviewed and key personnel were interviewed. Substantive tests of the records, to provide sufficient evidence that the employer is accurately reporting and remitting ASRS and Long Term Disability (LTD) contributions, were performed. Included in the audit tests performed were:

- Review of the contract between the employer and the ASRS.
- Review of employer pay registers.
- Examination of part-time employees' time sheets and personnel and payroll records to determine eligibility.
- Review of noncontributing employees' payroll records for application of the 20 hours, 20 week eligibility criteria.

ARIZONA STATE RETIREMENT SYSTEM
PIMA COUNTY
SEPTEMBER, 2013

- Review of hours and weeks worked by retired employees who returned to work.
- Review the salaries of retiring employees to determine whether there is salary spiking during the years prior to the employee retirement.
- Review of potentially ineligible employees.
- Other detailed testing as required to meet ASRS audit objectives.

AUDITOR COMMENTS:

Pima County personnel were cooperative, informative, and helpful in providing time reports, payroll records, and other information necessary to effectively complete the ASRS audit.

**A REPORT TO THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS**

PIMA COUNTY

FINDINGS AND RECOMMENDATIONS

SEPTEMBER, 2013

ARIZONA STATE RETIREMENT SYSTEM
PIMA COUNTY
RECOMMENDATIONS

FINDING 1:

Pima County:

- Did not timely inform the ASRS that 16 retired members were no longer covered through Pima County's insurance coverage under COBRA resulting in ASRS medical and dental insurance premium benefit overpayments.

Arizona Revised Statutes (A.R.S.) § 38-783 provides for the ASRS to pay part of the coverage premium of any health and accident insurance for each retired member if the member elects to participate in the coverage provided by the ASRS or elects to participate in a health and accident insurance program provided by an employer. Pima County provides its retirees insurance coverage under COBRA.

The May 2012 ASRS health insurance premium benefit report was selected for review. As of May 2012, there were 91 retirees receiving an ASRS premium benefit. Ten of these retirees were dropped from Pima County's insurance coverage under COBRA. As a result of this audit, Pima County recently submitted information to the ASRS necessary to process the overpayment. As of May 2013, an additional six retirees from the May 2012 ASRS health insurance premium benefit report have been identified as being dropped from Pima County's insurance coverage under COBRA. Pima County will submit information to the ASRS necessary to process the overpayment for these six retirees.

The estimated premium benefit overpayment due the ASRS, as determined by this audit is as follows:

Total estimated premium benefit overpayment due \$34,191

Recommendation:

1. Pima County should develop a monthly process to reconcile all ASRS premium benefit payments to ensure they have not been dropped from Pima County's coverage under COBRA. Pima County should timely notify the ASRS whenever a retiree has been dropped from coverage.
2. Pima County should self-audit the eligibility of all retirees' receiving the ASRS premium benefit payment for the fiscal year beginning July 1, 2012. The self-audit results should be provided to the ASRS.

Employer Response:

Pima County will develop written procedures to reconcile all ASRS premium benefit payments on a monthly basis to ensure they have not been dropped from Pima County's coverage under COBRA. Additionally, Pima County will complete a self-audit the eligibility of all retirees' receiving the ASRS premium benefit payment for the fiscal year beginning July 1, 2012.

**A REPORT TO THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS AND AUDIT COMMITTEE**

**ARIZONA STATE RETIREMENT SYSTEM
EMPLOYER AUDITS**

TOWN OF PAYSON

SEPTEMBER, 2013

ARIZONA STATE RETIREMENT SYSTEM
TOWN OF PAYSON
SEPTEMBER, 2013

The audit of the Town of Payson was completed August 13, 2013 for the period July 1, 2010 through June 30, 2013.

The audit objectives were to determine whether the Town of Payson is in compliance with Arizona State Retirement System (ASRS) statutes governing the following:

- Eligible compensation and required contributions reported to the ASRS.
- Accurate and timely enrollment of all eligible employees.
- Reporting and remitting of the employees' and employer's share of contributions.
- Medical and dental insurance premium benefits payable to retired employees.
- Rules governing retirees' return to work.
- Rules governing termination incentive programs.

SUMMARY OF FINDINGS:

Based on the results of the work performed to meet the above audit objectives, there were no findings presented to the Town of Payson.

BACKGROUND

The Town of Payson joined the ASRS on July 1, 2004, by executing an Application and Social Security 218 agreement. The Town of Payson currently has approximately 104 employees contributing to the ASRS.

DESCRIPTION OF AUDIT WORK PERFORMED

The audit work completed consisted of an examination of the employer's payroll and personnel records for the time period July 1, 2010 through June 30, 2013. The auditor reviewed pertinent documentation and interviewed the Town of Payson personnel from the Human Resources and Payroll departments. The auditor performed substantive tests of the employees' employment and payroll records to provide sufficient assurance that the employer is accurately reporting and remitting ASRS retirement and Long Term Disability (LTD) contributions. The following audit tests were performed:

- Review of the Social Security 218 agreement to determine eligible employees.
- Review of the employer payroll records and related ASRS reports.
- Review of employees' time sheets and payroll records to determine eligibility.
- Review of the noncontributing employees' personnel and payroll records to determine compliance with the 20 hour, 20 week eligibility criteria.
- Review of the retired employees' medical and dental insurance premium benefit.

ARIZONA STATE RETIREMENT SYSTEM
TOWN OF PAYSON
SEPTEMBER, 2013

- Determine compliance with A.R.S. § 38-766.01 by reviewing the hours and weeks worked and other criteria of retired employees who returned to work.
- Determine compliance with A.R.S. § 38-766.02 requirement to pay an ACR on all retirees who have returned to work in any capacity.
- Review the salaries of retiring employees to determine whether there is salary spiking during the years prior to the employee retirement.
- Review for unreported retirement incentive programs.
- Other detailed testing as required to meet the audit objectives.

AUDITOR COMMENTS:

The Town of Payson personnel were cooperative, informative and helpful in providing time reports, payroll records, and other information necessary to effectively complete the ASRS audit.



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

Operations and Audit Committee (OAC) Meeting Schedule for the Calendar Year 2013

Please make note of the following scheduled meetings pertaining to the Operations and Audit Committee of the Arizona State Retirement System (ASRS). The meetings are held in the 14th Floor Conference Room of the Arizona State Retirement System (3300 North Central Avenue) unless otherwise designated.

March 12, 2013, Tuesday, 9:00 a.m.

- IT Plan Update
- 2013 Calendar Topics
- Health Insurance Update
- Internal/Employer Audits

May 9, 2013, Thursday, 10:30 a.m.

- COOP Update
- Web Steering Committee Update
- Risk Assessment Update - Disbursements
- Biennial Audit Plan
- Internal/Employer Audits
- Internal Audit Quarterly Update

July 30, 2013, Tuesday, 10:30 a.m.

- Risk Assessment Update
- Budget/ASD Update
- LTD Contract Renewal
- Health Insurance Contract Renewal –
Dental
- Internal Audit Quarterly Update
- Internal/Employer Audits

September 5, 2013, Thursday, 10:30 a.m.

- Health Insurance Contract Renewal –
Medical
- Internal Audit Division Update
- Internal/Employer Audits

November 7, 2013, Thursday, 10:30 a.m.

- Risk Assessment Update
- Affordable Care Act Exchanges
- OAC Calendar 2014
- Internal Audit Quarterly Update
- Internal/Employer Audits

Updated: 8/23/13

A copy of the agenda for each meeting will be available at the ASRS offices listed above at least 24 hours in advance of each meeting. Persons with a disability may request a reasonable accommodation such as a sign language interpreter or alternate formats of this document by contacting Tracy Darmer, ADA Coordinator at (602) 240-5378 in Phoenix, at (520) 239-3100, ext. 5378 in Tucson or 1-800-621-3778, ext. 5378 outside metro Phoenix or Tucson. Requests should be made as early as possible to allow time to arrange the accommodations.